Nos. 86-495, 86-624 and 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

UNITED STATES OF AMERICA, *et al.*, K MART CORPORATION AND 47TH STREET PHOTO,
Petitioners,

v.

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, CARTIER, INC., and CHARLES OF THE RITZ GROUP, LTD.,
Respondents.

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

BRIEF OF AMICUS CURIAE CETUS CORPORATION IN SUPPORT OF RESPONDENTS

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Cetus Corporation respectfully submits this brief as amicus curiae in support of respondents Cartier, Inc., Charles of the Ritz Group, Ltd., and Coalition to Preserve the Integrity of American Trademarks (COPIAT).[1]

INTEREST OF AMICUS CURIAE

Cetus Corporation of Emeryville, California is a biotechnology company conducting pioneering efforts in the areas of both recombinant DNA and hybridoma technologies. Cetus owns American and European subsidiaries and is engaged in world-

[1] Pursuant to Rule 36.1 of this Court, consent to the filing of this brief has been granted by all parties. Their consents have been filed with the Court.

wide licensing of its intellectual property rights. United States commercial rights in these products and trademarks remain with Cetus.

Biotechnology is a relatively new field of science, offering a rich opportunity for the treatment of cancer and infectious diseases, such as AIDS. Small American companies, of which Cetus is the earliest example, have pioneered the notion of a start-up company built on the promise of the commercial application of this promising technology.

Since 1972, Cetus has devoted its resources to the commercial application of biotechnology in the development of new or improved products and processes for human and animal healthcare and for the production of food, energy and chemicals. Cetus-modified microorganisms are currently used in the commercial production of antibiotics, vitamin B12, and an animal vaccine containing components developed by Cetus through recombinant DNA technology. Cetus has produced potential therapeutic products through recombinant DNA, including the products beta-interferon and interleukin-2, which may have significant value in the treatment of certain cancers and infectious diseases, including AIDS.[2] These products are now in human clinical trials, required for Food and Drug Administration approval.

Years of research and millions of dollars are necessary to bring the promises offered by biotechnology to fruition. Recoupment of this substantial investment is vital for a small, biotechnology-devoted company to continue its discovery and development of valuable products. Yet, small biotechnology-devoted companies are unable to handle directly the marketing of their products on a world scale. They do not have the resources, either financially or in manpower, to secure the necessary regulatory approval in various countries or to enter into full-scale marketing throughout the entire world. Therefore, vital to recoupment of the research and development costs

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[2] Cetus scientists were awarded the Intellectual Property Owner's Inventor of the Year Award in 1986 for their work in developing novel forms of the promising anti-cancer drug, interleukin-2, by recombinant DNA technologies.

is the ability to enter into territorial licensing of the exclusive rights in intellectual property, which have been granted on a county-by-country, or "territorial", basis. Cetus owns twenty-six United States trademark registrations, sixty-seven foreign trademark registrations, eleven pending United States trademark applications, and eighty pending foreign trademark applications.

Based upon the territorial principle of intellectual property rights, small companies such as Cetus can develop a world-wide, years-long plan to recoup the substantial investment made in researching and developing their products. The separate transfers of the foreign rights in its intellectual property to third parties who are equipped to handle particular foreign markets provide the American company with an immediate infusion of cash and secure it a future return on its products. At the same time, the American company is able to retain its exclusive United States rights in order to market its products in its home territory.

The economic arrangements entered into under this world-wide marketing plan include the foreign manufacture of the same goods that will be manufactured in the United States for sale under the same trademarks. Thus, it will be possible, in derogation of the U.S. rights, to purchase the goods abroad and import them into the United States. The purchase of products intended for markets outside of the United States and their importation and sale in the United States without the American intellectual property owner's consent, a transaction entitled "parallel importation" or "gray marketing", is the basis of the present controversy.

To allow parallel imports will impinge on Cetus' ability to reap the benefits of its research, its United States marketing efforts, and its developing world-wide strategy. The ensuing loss of revenue will reduce Cetus' ability to continue its pioneering efforts toward the development of life-saving biotechnology products.

Amicus has no interest in the outcome of the case other than the legal principles involved. The sole interest to Amicus is whether a United States intellectual property right, whether

patent or trademark, can be asserted against a parallel importer or gray marketeer who has obtained goods *outside* the United States under a foreign, parallel patent or trademark.

SUMMARY OF THE ARGUMENT

The principle of territoriality, a long-standing tradition in the intellectual property law of the United States, maintains that the source of intellectual property protection arises from the law of each particular country. To secure a return on their years-long, substantial investment in the discovery and development of new products, biotechnology-devoted companies, such as Cetus Corporation, have relied upon this established principle in the development of their world-wide marketing strategy of territorial licensing. To overrule the principle will significantly diminish the fledgling biotechnology-devoted companies' ability to gain a return upon their substantial investment by the retroactive effect upon their existing licensing arrangements.

Major trading partners of the United States apply the principle of territoriality. Therefore, if this long-standing tradition is overruled in the law of the United States, American companies will not have a corresponding right to sell parallel imports abroad. The United States should not now, without any agreement or treaty with other major trading partners, unilaterally overrule this principle.

As demonstrated in the field of biotechnology, interbrand competition promotes technological advances. Parallel imports are solely intrabrand competition, which discourages interbrand competition. Sanctioning parallel importation will impede the new entrants' investment in the development of innovative products and the creation of new start-up companies such as Cetus Corporation.

THE ARGUMENT

I. THE ESTABLISHED PRINCIPLE OF TERRITORIALITY IN INTELLECTUAL PROPERTY RIGHTS SHOULD BE MAINTAINED

A. World Trade Operates on the Basis of Territoriality

The nations of the world may well be moving toward the establishment of one common market that operates across political boundaries, but they have yet to arrive at such a peaceful understanding. The difficulties under the General Agreement on Tariffs and Trade (GATT) generally, and between Japan and the United States regarding semiconductors specifically, demonstrate the underlying principle that world trade still functions through separate market places, i.e., is territorial. European countries have found that a common market works to the benefit of each individual member nation, but does so to the exclusion of non-member countries. With regard to the rest of the world, the European Common Market operates as a separate entity. Although the economies of foreign countries affect the United States economy and although trade is conducted on a world-wide scale by American companies, the market in the United States is separate from the markets of foreign nations.

The territorial division existing in the world marketplace is supported by legal principles. Rights acquired under the law of one nation do not transfer to another nation. A non-U.S. patent has no effect in the United States. Likewise, a non-U.S. trademark is unenforcible in the United States, unless rights in that designation of origin have been acquired under the law of this country. This principle of territoriality in intellectual property rights maintains that the source of intellectual property protection arises from the law of each particular country. Under this principle, a trademark acquired under the law of the United States is, in law, a *different* mark from the identical trademark acquired under the law of a foreign country.

B. The Sale of Goods Within the United States Exhausts U.S. Intellectual Property Rights, But the Sale of Goods Outside of the United States Does Not.

Within the United States, as within the Common Market,[3] the owner of an intellectual property right, whether patent or trademark, "exhausts" that right as to those goods he has voluntarily placed in commerce. *Adams* v. *Burke*, 84 U.S. (17 Wall.) 453 (1873). Once having made a profit for goods *in this country*, he can no longer control the movement of such goods with his patent or trademark. However, a sale *outside* the United States under a parallel property right in a foreign country does not exhaust the property right in the United States. *Boesch* v. *Gräff*, 133 U.S. 697 (1890) (patents); *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923) (trademarks). "The sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Boesch* v. *Gräff*, 133 U.S. 697, 703 (1890).[4] Those who purchase from the holder of the foreign patent right do not thereby acquire a right to sell the product in the United States in defiance of the U.S. patent holder's rights. Rather, they acquire rights only under the foreign law. No U.S. rights have been transferred in the sale of that article.

Likewise, a trademark right is a valuable property right, "intellectual" in nature, that should be protected by the same principle. As Justice Holmes explained in *Katzel*, 260 U.S. at 692, citing *Boesch*, "[i]t deals with a delicate matter that may be of great value but that easily is destroyed, and therefore

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[3] *Centrafarm BV* v. *Sterling Drug Co. Inc.* (15/74), [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480 (Eur. Ct. Jus. 1974), limited to trade *within* the European Economic Community in *E.M.I. Records Ltd.* v. *CBS United Kingdom Ltd.*, [1976] E.C.R. 811, [1976] 2 C.M.L.R. 235 (Eur. Ct. Jus. 1976). See discussion *infra*, at Sections I.C. and II.B.(3).

[4] In *Boesch* v. *Gräff*, parallel patents existed in both Germany and the United States. Hecht had a right to sell patented burners under German law. Gräff, et al., obtained rights under the U.S. patent and under these rights sued Boesch, et al., who had purchased the burners in Germany, for patent infringement when they attempted to enter the U.S. market.

should be protected with corresponding care." Ownership of trademarked goods does not necessarily include the right to sell the goods anywhere; rather, only the United States trademark owner has a right to sell the goods in the United States. *Id.* Again, the sale of a trademarked article outside of the United States is an exercise of foreign rights. No rights acquired under the law of the United States have been exercised. Only the U.S. owner has acquired rights in the trademark in the United States. The licensing of a trademark to a subsidiary or an unrelated third party under the law of a foreign country, as with the sale of the trademark and the goodwill attached thereto, is an exercise of the foreign rights in that trademark. Where the United States trademark rights are not licensed or otherwise transferred, only the owner of the United States trademark has a right to sell goods under that trademark in the United States.[5]

C. EEC Principles Permit Member Nations to Block Parallel Importation of Goods Originating Outside the EEC

America should not now, unilaterally, abandon the principle of territoriality. There is no public policy justification for doing so. American distributors of goods under parallel patents are unable to enter the markets of the various nations of Europe, which permit blockage of such goods.

In the context of a biotechnology-based invention, the German Supreme Court specifically upheld the right of the German patentee to block American parallel imports of products into Germany under a German patent, *Re Tylosin*, Case X ZR 57/73 German Federal Supreme Court (1976). *Re Tylosin* involved maintenance of territorial patent rights in a biotechnology invention (the process for making the drug in question involved cultivation of *Streptomyces fradiae* of either of two particular strains). The European Court of Justice [6] upheld exclusion of goods from the United States under parallel

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[5] The principle of territoriality in U.S. law is discussed further, *infra*, at Section III.

[6] Herein: "Eur. Ct. Jus." This "Common Market Court" in Luxembourg hears referrals of legal questions from national courts of member states, as well as appeals from decisions of the EEC Commission in Brussels.

trademarks in *E.M.I. Records Ltd.* v. *CBS United Kingdom Ltd.*, [1976] E.C.R. 811, [1976] 2 C.M.L.R. 235 (Eur. Ct. Jus. 1976).

There is no policy justification seen for conversely permitting European distributors under parallel rights to take a free ride and sell in the United States with impunity, free from the American patent or trademark. European distributors who have obtained a territorial right implicitly prohibiting sales in the United States would be given a bonus to compete in the United States, to the detriment of the exclusive holder of the parallel American right, who does not have a corresponding right in Europe.

Permitting parallel imports *within* the Common Market is based on the underlying theme that the Common Market has created a "United States of Europe". Once patented or trademark protected goods were sold *within* the Common Market, exhaustion applies. Thus, if England and Holland are viewed as a "Massachusetts" and "New York", exhaustion principles upon first sale within the EEC apply, as they do upon first sale within any of the different states in this country. *See, Centrafarm BV* v. *Sterling Drug Co. Inc.* (15/74), [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480 (Eur. Ct. Jus. 1974), limited to *intra*-EEC trade in *E.M.I. Records.* In *Centrafarm,* the European Court of Justice considered whether parallel imports across the borders of EEC countries were legal under the Articles of the Treaty of Rome despite their prohibition under the laws of member countries.[7] The court held that the prohibition of parallel imports was not permitted when goods originate from another EEC member country in view of Article 30 of the Treaty of Rome, by which the principle of the free

[7] American-based Sterling Drug sold its drug "Negram" in various countries, including Holland and Great Britain, under parallel patents and trademarks. Centrafarm, without Sterling's consent, purchased Sterling's pharmaceuticals from its licensed subsidiaries in Great Britain and sold the pharmaceuticals in Holland, achieving a substantial profit because of a great price differential in the pharmaceuticals due to varying government policies, coupled with the extremely low transportation costs. *Id.* See discussion *infra* at Section II.B.(3).

movement of goods was agreed upon by EEC member nations. Thus, only by the force of the Treaty of Rome are parallel imports permitted between these countries.

Any elimination of the territoriality principle from United States intellectual property law should only be made as part of an agreement with other nations as done within the EEC.[8] Unilateral elimination will only benefit our foreign trade partners and injure the United States economy. Particularly, it will inhibit the growth and development of new entrants in fields requiring substantial, years-long start-up investment.

II. TERRITORIALITY PROMOTES DEVELOPMENT OF NEW ENTRANTS IN YOUNG AREAS OF TECHNOLOGY

A. Biotechnology Relies on Territorial Licensing To Spread Development Costs

Amicus, as a biotechnology-devoted company,[9] depends upon the territoriality of intellectual property rights to develop its products such as its interleukin-2 and other anti-cancer drugs and medicinal devices. The problems of Amicus are typical of an American biotechnology company that must spread the cost of developing a product beyond its home territory. To go thr gh many years and tens of millions of dollars for regulatory approval of a new product, and then to obtain a return on the investment only through marketing in the United States is not enough. The costs are simply too great. New entrants in innovative fields of technology that require substantial investment before a marketable product is developed must seek financial support through the transfer of foreign rights in the product. They can afford neither to reserve the world market for themselves nor to seek recovery of their investment in solely the U.S. market, letting the foreign rights fall by the wayside.

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[8] And, unlike the EEC, elimination of territoriality in intellectual property law should only be done with corresponding harmonization of other laws and policies, e.g., government pricing policies and warranties, without which windfall profits will still be derived from parallel imports.

[9] As opposed to large multinational companies where biotechnology may be only a very minor part of a company's overall business.

Governmental approval to market pharmaceuticals is very costly. Other developed countries, including West Germany and particularly Japan, have their own peculiar requirements for regulatory approval, which can equal the complexity and expense of the American regulatory proceeding. Amicus typically gives the right to seek approval (and manufacture and market) in the various foreign territories to one or more third parties. The benefits to Amicus are great. The risks of developing and marketing the product are shared. Amicus immediately receives some cash infusion or other technology that it can use in the United States. The test data on cancer patients by the foreign enterprise are conveyed back to Amicus to provide a broader base of information concerning efficacy and side effects on which the U.S. regulatory authorities may judge the application. Should the foreign enterprise be successful and commence actual marketing, the royalty income can be significant (though it would not match the income received if Amicus could market its products worldwide without the third parties). Thus, the use of territorial licensing is necessary to the operation of biotechnology-devoted companies and their continued exploration of new medical products.

B. Abandonment of the Principle of Territoriality Would Severely Damage Biotechnology-Devoted Companies

1. Parallel Imports Take a Free Ride

Parallel imports are largely price-driven in nature. The main reason parallel imports exist is to enable the importer to offer the genuine item at a price lower than it is being offered in the United States through the normal channels of distribution.

The price differences are caused largely by the dictates of the marketplace, by the specific demands of the American consumer, and, in the pharmaceutical field, by the cost of research and development and United States regulatory approval. Trademark owners must engage in advertising and other promotional activities to create and maintain the goodwill associated with their trademarks. These advertising expenses cover a vast geographic market of over 240 million people spread over 3,000 miles. The cost of advertising in the United

States, with its heavy reliance on television to reach this geographically dispersed mass market, is relatively high. Further, the United States market demands warranty protection that is often unavailable in other countries. Retailing costs for well-known trademarked items tend to be higher because of the public's demand for retailing amenities.

Currency fluctuations also provide impetus for the operation of the gray market. Where an American company manufactures the domestic goods and the foreign company manufactures the same goods under a license from the U.S. company, a strong dollar reduces, comparatively, the price of the goods overseas.

2. Extra Incentive for Free Riding In the Pharmaceutical Industry

In the pharmaceutical field, in addition to the costs of research and development are the costs of regulatory approval, which can provide significant incentive for parallel importation by raising the cost of a pharmaceutical in one country, e.g., the United States, while having significantly less impact on the cost in another country. Further, the second comer can market the product in the United States at relatively little extra expense.

In the United States, the first company to seek regulatory approval of a specific product invests substantially greater amounts of time and money than any subsequent company. Whether or not the parallel imports are from the same source as the intellectual property owners' products, the expense required to market the product is significantly lower. Where the product is manufactured both overseas and in the United States, the parallel importer need only show that the product is the bioequivalent of the American manufacturer's product in order to obtain government approval to sell the pharmaceutical. This is significantly cheaper than the cost of processing the New Drug Application (NDA) or Product Licensing Application (PLA).[10] Where the drug is only manufactured overseas such that both the American intellectual property owner and the

[10] The latter application is for approval of new products developed through biotechnology.

parallel importer derive their goods from the same source, the product is identical and, therefore, the costs to the parallel importer of entering the market with the product are de minimis.

Food and Drug law sets up the second comer as a free rider. Regardless of whether the American patent and trademark holder manufactures the drug or derives it from a separate or common source as the approved foreign seller, it will profit less because of the percentage that goes towards recoupment of its investment in developing the product and the market, and obtaining regulatory approval. Because of the reduced sales, a reduced overall profit will be realized.

3. The European Example: Free Riding Due to Government Pricing Policies

To envision the effects of allowing parallel importation of pharmaceuticals in the United States, one need only look back a generation to what happened in the Common Market, when the historic principles of territoriality in intellectual property were expanded from a nationwide basis to provide "exhaustion" following a first sale anywhere in the Common Market.[11]

As seen in *Centrafarm BV* v. *Sterling Drug Co. Inc.* (15/74), [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480 (Eur. Ct. Jus. 1974), the primary impetus for parallel inportation was the mandatory, very low ceiling placed on the price of the pharmaceuticals in Great Britain. This, coupled with the low transportation costs for pharmaceuticals, provided a significant profit for the parallel importer purchasing the product in Great Britain and selling it at a high price in another EEC country.

The same windfall can result from allowing parallel imports in the United States. If a licensee of Amicus sells a

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[11] *See*, Wegner & Müller, *Negram: The Common Market-Wide Exhaustion of Patent Rights Through Territorial Licenses*, 57 Jour. Pat. Off. Soc'y 46 (1975). All of the implications readily apparent at that time were ultimately considered by the European Court of Justice, although a line was drawn that did not extend the "exhaustion" doctrine to parallel imports from outside the EEC. *E.M.I. Records Ltd. v. CBS United Kingdom Ltd.*, [1976] E.C.R. 811, [1976] 2 C.M.L.R. 235 (Eur. Ct. Jus. 1976).

product in Great Britain, his purchaser would, under a result contrary to *Boesch* v. *Gräff*, 133 U.S. 697 (1890) and *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923), be free to sell the drug in the United States.[12] Parallel importers will then profit greatly by virtue of the lower overseas price without having borne the expense of discovery and development of the product, regulatory approval, and goodwill in the trademark. Such a windfall clearly is undeserved, and such punishment to biotechnology companies is self-evident.

Thus, the sellers of parallel imports are expropriating the marketing and promotional activities, and, in the pharmaceutical industry, the development and regulatory approval efforts of the intellectual propety owners. In *Katzel*, Justice Holmes recognized the danger of free riding in his statement that trademark law should not only safeguard the public from deception by indicating the source of origin of a good, but should also secure the property rights of the trademark owner. *See, A. Bourjois & Co.* v. *Katzel*, 260 U.S. at 692. Thus, from the incipiency of the adoption of the territoriality principle into American law by the Supreme Court, it has always been recognized, at least implicitly, that one of the rationales is to prevent free riding. The free ride taken on the intellectual property owners' activities and expenses should not now be sanctioned by this Court.

4. Overruling *Boesch* and *Katzel* will have Serious Consequences By Its Retroactive Effect On Existing Marketing Strategies

Overruling the principle of territoriality established in *Boesch* v. *Gräff*, 133 U.S. 697 (1890), and *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689 (1923), would destroy the strategy American biotechnology-devoted companies employ to market their product world-wide. Yet, it is too late for biotechnology companies to rescind their agreements and change their business plans for their existing products. The territorial license agreements already executed for many products cannot be rescinded.

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[12] This would be subject, of course, to compliance with United States Food and Drug Law regulations.

Many American biotechnology companies have sought out the largest and most aggressive pharmaceutical companies in Japan, Germany and other countries to share in the development work and marketing *in the foreign countries.* To protect the home American market, a fledgling biotechnology company relies upon the exclusivity of its intellectual property rights. To change the rules, now, retroactively, in midstream, would create an enormous windfall for the large foreign companies who could turn their production to the U.S. market. The American biotechnology company would be hard-pressed to continue its regulatory approval processes here at home, faced with the unexpected competition from its foreign licensees. Thus, a sudden shift by the Court to reverse *Boesch* and *Katzel* would have dramatic consequences, for Amicus and other companies similarly situated.

C. The Principle of Territoriality Promotes New Entrants in Competition with Large Multinational Pharmaceutical Companies.

Interbrand competitiveness promotes new ventures. Parallel imports promote *only intra*brand competition. By reduction or elimination of intrabrand competition, interbrand competition is encourged.[13] Recognizing this, anti-trust law switched from the per se illegality of vertical restraints established by *U.S.* v. *Arnold Schwinn & Co.*, 388 U.S. 365 (1967), to the Rule of Reason approach established by *Continental T.V., Inc.* v. *GTE Sylvania, Inc.*, 443 U.S. 36, 47-57 (1977). The decision and economic analysis applied in *Sylvania* is leading towards a per se legality of vertical restraints, although the opinions yet couch their decisions in terms of the Rule of Reason.[14] The same analysis leads to the conclusion that the principle of territoriality should be fully applied in intellectual property law through the complete exclusion of parallel imports.

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[13] *E.g.*, Miller, *Restricting the Gray Market in the Trademarked Goods: Per Se Legality*, 76 Trademark Rep. 363, 365 (1986) and sources cited in note 10 (hereinafter "Miller".)

[14] Miller, *supra*, at 367.

Particularly in a new field such as biotechnology, inter-brand competition is vital to encourage progress in the field: trading off of another's scientific development and marketing efforts inhibits growth in the field and thereby harms the public. To allow free riding is to discourage new development. Why take the time and expense of developing a new product when one can make a profit from selling an existing product? In the pharmaceutical industry, particularly in the promising field of biotechnology, all encouragement possible should be given to development of new, more effective therapeutic and diagnostic products.

New entrants into areas such as biotechnology rely on territorial licensing and the reservation of the United States market for their own development to compete with the established multinational corporations. The larger multinationals are often able to conduct a worldwide regulatory approval and marketing program, without the need for licensees. In the pharmaceutical field, to begin marketing new products, the large, established companies simply need to add the new product to the existing list promoted by their salesmen. Their reputation and good will in other products will carry over to the new product. A young company must develop from scratch the sales force, the reputation, and the good will. To achieve this directly on a worldwide basis is cost prohibitive. To achieve this in the United States market alone necessitates additional substantial outside investment. To compete with the marketing capabilities of the multinationals, Amicus must give up the rights to market its products directly and to obtain sole benefit of the profits. Competition requires joining forces and relinquishing foreign intellectual property rights in a territorially divided licensing scheme. Eliminating the principle of territoriality from intellectual property law would discourage new entrants in innovative fields.

If territoriality is abolished, biotechnology and particularly the human therapy that is the focus of Amicus' business will will be held primarily in the hands of the few multinational pharmaceutical companies. Amicus does not wish to denigrate the efforts of such companies; rather, the bright biotechnology professor from the Stanfords and Berkeleys of the 1990's should

have a *choice* whether to take his/her new bioinvention to an established multinational or, as in the 1970's and 1980's, to go to or to create a company like Cetus Corporation and carry on the American dream.

III. TERRITORIALITY IS AN ESTABLISHED PRINCIPLE OF UNITED STATES TRADEMARK LAW

The debate whether the United States would follow the universal principle or the territorial principle in its intellectual property laws has already been held and concluded. Territoriality won.

Prior to the Supreme Court's decision in *A. Bourjois & Co.* v. *Katzel,* 206 U.S. 689 (1923), the universal theory was the prevailing legal philosophy, as exemplified in the Second Circuit's decision in *A. Bourjois & Co.* v. *Katzel,* 275 F. 539 (1921). In *A. Bourjois & Co.* v. *Katzel,* an American company had purchased from a French manufacturer the American rights to a trademark for face powder. The American company became identified by the consumer as the source of the trademarked face powder through its extensive advertising and thorough marketing strategies uniquely directed to the American market. Subsequently, another company purchased the face powder bearing the trademark from the French manufacturer, imported it into the United States, and sold it to American consumers. The Second Circuit held that the American trademark owner had no cause of action because the goods sold were the genuine goods covered by the French trademark; thus the rights of the owner of the trademark were not infringed. *Id.,* at 543.

The Second Circuit's ruling was the culmination of a number of cases arising under Section 27 of the Trademark Act of 1905 (the predecessor to Section 42 of the Lanham Act, 15 U.S.C. § 1124) that rejected claims of American trademark owners that goods bearing genuine foreign trademarks identical to the American trademark should be excluded from import. *See,* e.g., *Fred Gretsh Mfg. Co.* v. *Schoening,* 238 F. 780 (2d Cir. 1916).

The Supreme Court's subsequent decision in *Katzel,* which reversed the Court of Appeals, and the enactment by Congress

of Section 526 of the Tariff Act of 1922 instituted the territoriality theory of trademarks as the law of the United States. The territoriality principle of trademarks has been consistently the law of the United States since the *Katzel* decision, and was reaffirmed in the enactment of Section 42 of the Lanham Act. *See, also,* 2 J. McCarthy, *Trademarks and Unfair Competition,* § 26.13 (2nd Ed. 1984).[15] The territoriality principle is also the prevailing trademark theory of law in most other industrialized countries, unless altered by agreement between groups of countries such as the EEC.

The discussion in the Supreme Court's *Katzel* opinion explains the territoriality principle. Justice Holmes, in writing for the Court, specifically analogized trademark protection to that of patented articles: "The monopoly in that case [patents] is more extensive, but we see no sufficient reason for holding that the monopoly of a trademark so far as it goes is less complete." *A. Bourjois & Co.* v. *Katzel,* 260 U.S. at 692. Justice Holmes continued,

> [i]t is said that the trademark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trademark of

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[15] As stated in McCarthy,

> Legislative history of the 1946 Lanham Act reveals a Congressional purpose of giving trademarks the greatest national protection which the Constitution permits. HR Rep No. 219, 79th Cong 1st Sess 4 (1945); SR No. 1333, 79th Cong 2d Sess 5-6 (1946)[;] Application of Beatrice Foods Co. (1970) 57 CCPA 1302, 429 F2d 466, 166 USPQ 431. Thus, in the absence of special statutory defenses, [footnote omitted] or a defect in the registration itself, [footnote omitted] the senior user who has a Principal Registration thereafter has superior rights throughout the United States.***
>
> ***Modern decisions interpreting the Lanham Act hold that federal law affords nationwide protection to registered marks, regardless of the areas in which the registrant actually uses the mark. [footnote omitted] Although the Lanham Act does not state this principle in so many words, this is the obvious legislative intent culled from the federal Act.

Id., at page 213.

> the plaintiff only in the United States and indicates in law . . . that the goods come from the plaintiff although not made by it.

Id. The Supreme Court in the *Katzel* decision specifically recognized that the purpose of trademark law is not only to protect the public from deception by identifying the true origin of the goods, but also is to secure the ***property rights*** of the trademark owner.

In this opinion, Justice Holmes was not discussing Section 526, which was not before the Court, as it did not exist when the Second Circuit made its determination. Thus, the Supreme Court's decision goes beyond the narrow confines of the proper interpretation of Section 526 and relates directly to United States trademark law as a whole.

Subsequently, the Supreme Court ruled in *A. Bourjois & Co.* v. *Aldridge,* 263 U.S. 675 (1923) (per curiam) that goods bearing genuine foreign trademarks identical to American trademarks should be excluded from the country by the Customs Service under Section 27 of the Trademark Act of 1905, which barred the entry of goods that "copy or simulate" a registered trademark.

Concerning the enactment of Section 526, the legislative history of the Act demonstrates an intent to embody the territorial principle into law and to reject the universal theory. The conference report on the Tariff Act of 1922 stated concerning Section 526:

> [a] recent decision of the circuit court of appeals [the Second Circuit in the *Katzel* case] holds that existing law does not prevent the importation of merchandise bearing the same trademark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. [Section 526] makes such importation unlawful without the consent of the owner of the American trademark.***

H. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922). By its statement that "consent of the *owner* of the *American* trademark" is required, *Id.*, Congress implicitly recognized that Section 526 embodied the territorial principle.

In the Senate debate on Section 526, Senator McCumber criticized the universality principle and declared the need to reform existing trademark law, which he criticized as

> stating that the trademark is simply to indicate the character of the goods, or the maker, so that we will know what the goods are; and the courts will not protect the individual [trademark owner].

62 Cong. Rec. 11,605 (1922).

Further, the subsequent action of Congress in enacting the Tariff Act of 1930, 19 U.S.C. § 1526, which replaced the Tariff Act of 1922, clearly shows the unreserved intent to codify the territoriality principle of trademark law into American trade law. Congress, in enacting Section 526 of the Tariff Act of 1930 with identical language from Section 526 of the Tariff Act of 1922, specifically rejected a proposed amendment to the statute which would have deleted the clause that permitted an American trademark owner to consent to the entry of goods bearing its trademark into the United States. The Senate, which passed the amendment, stated in its report,

> [w]here the laws of the United States protect the interest of a trademark holder by allowing him a monopoly in the use of the mark, it is reasonable to require, so far as practicable, that, in return, the holder of the trademark shall manufacture his goods in the United States.

S. Rep. No. 37, 71st Cong., 1st Sess. 75 (1929). This language demonstrates the congressional understanding that Section 526 was to absolutely bar the importation of goods bearing an American company's trademark without the company's consent. If this was not the understanding of Congress, the Senate amendment would have been nonsensical. The Senate clearly would not have tried to pass an amendment to change a law if it felt that the law already stated what the new amendment was to require.

Thus, the legislative history of Section 526 of the Tariff Act of 1930 clearly demonstrates that the territoriality principle of trademark law is the principle under which the United States is to operate, as found by the Supreme Court in *A. Bourjois & Co.* v. *Katzel* and *A. Bourjois and Co.* v. *Aldridge.*

Finally, it is respectfully submitted that the Customs regulations in question actually reflect what the Customs Service believes the law should be and that Customs has superimposed its will over that of the Congress and the decisions of the Supreme Court. To this extent, Customs has usurped the powers of the United States Congress and of the United States Supreme Court. The power of the Executive Branch does not include substitution of its judgment of what the law should be for what the Judicial Branch has ruled as the law and for what the Legislative Branch has enacted as law. Therefore, for this reason alone, the Customs regulations should be overturned.

CONCLUSION

Amicus prays that this Court will uphold the historic principle of territorial rights for American patents and trademarks, confirming the right to exercise patent and trademark rights against parallel importers.

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